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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST May 1, 1990

Spring 1990 Regional Economic Survey

Farm Economy

Guardedly Optimistic But Vulnerable To Drought. With the exception of North Dakota, most agricultural bankers indicate that economic conditions are either the same or somewhat stronger than a year ago. Ranchers are benefiting from strong feeder-cattle prices, cattle and hog feeders are experiencing good returns and, although milk prices have weakened recently, dairy producers had strong earnings late last year. However, bankers indicate that margins are slim for many cash-grain producers.

Drought is a significant concern for many communities. Subsoil moisture is depleted in many areas and topsoil is also often lacking. However, recent spring rains give some hope the drought threat is diminishing. As of mid April, topsoil moisture in North Dakota and South Dakota was rated mostly short to very short and drier than a year ago. Topsoil moisture was also rated mostly short in eastern Montana and the southern two-thirds of Minnesota. However, topsoil moisture in Iowa and Nebraska is better than a year ago, and western Montana has adequate moisture supplies.

About half of the bankers rated overall economic conditions good to very good, 42 percent fair and only 7 percent poor. Iowa, Wisconsin and Minnesota bankers reported the strongest conditions, reflecting strong livestock feeding profits this year and good dairy earnings last year.

North Dakota bankers reported the weakest economic conditions, especially in central North Dakota, which has suffered through at least two years of drought. Slightly more than half of the bankers in central North Dakota rated economic conditions poor to very poor and the remainder only fair. While eastern Montana and South Dakota are considerably stronger than North Dakota, drought has also taken its toll there.

Economic conditions appeared somewhat stronger in larger communities than in small towns. One-fourth of the banks were located in towns of 1,000 or less, while another one-fourth were located in towns with populations of 5,000 or more. Sixty-one percent of the bankers from the larger towns rated economic conditions good to very good, compared with 46 percent of the bankers from smaller towns. The most pronounced differences between small and larger towns occurred in Nebraska.

However, this finding wasn't universal. Ratings were somewhat higher for small towns than for larger towns in North Dakota and Montana, perhaps reflecting the dominance of weather conditions. But bankers from smaller towns were typically less optimistic about the future than were bankers from larger towns. A number of bankers indicate that mainstreet businesses in small towns continue to struggle as business shifts to larger regional centers.

The majority (71 percent) of the agricultural bankers expect little change in overall economic conditions during the next 12 months, while 20

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Highlights

Our 27th semiannual survey reveals that livestock earnings are strong, but some grain farmers are not generating enough income to finance machinery replacement; the rise in land prices has slowed; and the farm failure rate has stopped declining, but remains at a low level.

Uneasiness prevails over moisture conditions. With timely rains, bankers anticipate a fair to good year. If drought continues, the outlook is fair to poor. Debt will probably have to be restructured for some highly leveraged operators located in drought areas. A few may even be forced to quit farming.

Economic conditions appear somewhat stronger in larger rural communities than in smaller towns; mainstreet businesses in small towns continue to struggle.

The Twin Cities economy is somewhat less robust than a year ago, but a recession is not anticipated. Loan growth has slowed, but the level of nonperforming loans remains low.

The economy in northeastern Minnesota and Northern Wisconsin is expected to remain fairly healthy. Steady growth will be led by increased tourism, rising mining employment and expansion by some local manufacturers.

Conducted in early April, this survey drew responses from more than 850 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin.

Qualitative questions such as 2, 6, 10, 13 and 16-24 show the percentage of bankers falling in each of the categories: higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

Credit Conditions

1. What is your current **loan-to-deposit ratio**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	53.5%	44.0%	54.0%	63.0%
Minnesota	57.5	50.0	59.0	68.0
North Dakota	46.7	37.0	46.3	55.0
South Dakota	49.0	38.0	50.5	60.8
Montana	53.6	44.8	52.0	60.0
Wisconsin	62.9	54.0	62.0	69.4
Iowa	50.5	41.0	50.0	60.0
Nebraska	54.5	45.3	54.0	64.0
Twin Cities Banks	61.8	55.0	65.0	70.0
N. Minn.-Wisc.	62.4	53.5	61.0	72.5

2. Loan-to-deposit ratio **higher or lower than desired**?

	Higher	Desired	Lower
All Ag Banks	6%	41%	53%
Minnesota	7	44	48
North Dakota	3	45	52
South Dakota	7	45	49
Montana	9	36	55
Wisconsin	10	41	49
Iowa	5	38	57
Nebraska	7	34	59
Twin Cities Banks	4	52	44
N. Minn.-Wisc.	20	40	40

3. **Typical interest rate** charged for operating loans?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	12.1%	11.8%	12.0%	12.5%
Minnesota	12.2	12.0	12.3	12.5
North Dakota	12.4	12.0	12.5	12.8
South Dakota	12.0	11.8	12.0	12.3
Montana	12.3	12.0	12.3	12.5
Wisconsin	11.8	11.3	11.8	12.0
Iowa	12.0	11.8	12.0	12.3
Nebraska	11.8	11.5	11.8	12.0
Twin Cities Banks	12.2	12.0	12.0	12.5
N. Minn.-Wisc.	12.3	12.0	12.0	12.7

4. Percentage change in **farm loan volume** during **past 12 months**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.3%	0.0%	0.0%	8.0%
Minnesota	3.1	0.0	0.0	8.9
North Dakota	2.0	0.0	0.0	5.0
South Dakota	2.5	0.0	0.0	8.4
Montana	4.1	0.0	0.0	10.0
Wisconsin	1.3	0.0	0.0	3.0
Iowa	4.0	0.0	1.0	9.8
Nebraska	4.4	0.0	0.0	8.0

5. Percentage change in **total loan volume** during **past 12 months**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	5.1%	0.0%	5.0%	10.0%
Twin Cities Banks	3.8	0.0	3.0	10.0
N. Minn.-Wisc.	4.2	0.0	5.0	9.6

6. **Anticipated loan growth** during **next 12 months** compared with past year?

	Higher	Same	Lower
All Ag Banks	30%	55%	15%
Minnesota	30	54	16
North Dakota	34	48	18
South Dakota	29	53	18
Montana	23	67	9
Wisconsin	39	53	8
Iowa	32	55	14
Nebraska	23	61	16
Twin Cities Banks	41	44	15
N. Minn.-Wisc.	20	63	17

7. Percentage change in **bank deposits** during past 12 months?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.4%	0.0%	3.0%	6.3%
Minnesota	3.4	0.0	3.0	6.6
North Dakota	1.2	0.0	0.0	4.3
South Dakota	3.1	0.0	0.9	7.7
Montana	0.9	-5.0	0.0	6.0
Wisconsin	4.4	0.0	4.0	6.5
Iowa	4.0	0.0	3.1	7.0
Nebraska	4.7	0.0	4.0	8.7
Twin Cities Banks	6.8	1.5	7.0	11.5
N. Minn.-Wisc.	4.6	0.0	5.0	7.0

8. Percentage of **farm loan portfolio** that is **nonperforming**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	1.2%	0.0%	0.1%	2.0%
Minnesota	0.9	0.0	0.0	1.0
North Dakota	2.5	0.0	1.0	3.0
South Dakota	1.0	0.0	0.0	2.0
Montana	1.9	0.0	0.1	3.5
Wisconsin	1.5	0.0	1.0	2.0
Iowa	1.2	0.0	0.0	1.5
Nebraska	1.0	0.0	0.4	1.3

9. Percentage of **total loan portfolio** that is **nonperforming**?

	Survey Average	Response by percentile 25th	50th	75th
Twin Cities Banks	1.0%	0.3%	0.9%	1.4%
N. Minn.-Wisc.	2.5	0.5	1.6	3.8

10. **Net loan charge-offs** this year compared with year ago?

	Higher	Same	Lower
All Ag Banks	13%	48%	39%
Minnesota	13	46	40
North Dakota	15	38	46
South Dakota	8	59	33
Montana	7	55	38
Wisconsin	9	44	47
Iowa	13	49	38
Nebraska	18	47	35
Twin Cities Banks	22	52	26
N. Minn.-Wisc.	7	51	41

Business Conditions

11a. Current **market value** of good **cropland**? (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$921	$450	$900	$1300
Minnesota	942	625	900	1200
North Dakota	426	256	338	475
South Dakota	415	250	350	500
Montana	415	231	300	488
Wisconsin	593	450	500	700
Iowa	1390	1100	1450	1700
Nebraska	950	650	1000	1200

11b. Current **market value** of **pastureland**? (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$288	$150	$250	$400
Minnesota	289	200	250	350
North Dakota	135	100	125	150
South Dakota	184	100	175	250
Montana	130	59	75	100
Wisconsin	261	200	250	300
Iowa	451	325	423	500
Nebraska	289	190	300	363

12a. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	7.2%	0.0%	6.0%	10.0%
Minnesota	9.1	5.0	10.0	13.0
North Dakota	2.6	0.0	0.0	5.0
South Dakota	8.4	0.0	10.0	14.0
Montana	2.5	0.0	0.0	5.0
Wisconsin	4.5	0.0	4.0	7.8
Iowa	7.8	5.0	7.5	10.0
Nebraska	7.7	4.0	8.0	10.0

12b. Percentage **change** in **pastureland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	4.9%	0.0%	0.0%	10.0%
Minnesota	4.6	0.0	0.0	5.0
North Dakota	2.0	0.0	0.0	2.0
South Dakota	8.0	0.0	5.0	10.0
Montana	2.7	0.0	0.0	5.0
Wisconsin	1.6	0.0	0.0	1.1
Iowa	4.7	0.0	3.0	10.0
Nebraska	8.5	0.0	8.0	12.5

13. Anticipated trend in **land prices** during **next 12 months**?

	Increase	Stable	Decrease
All Ag Banks	28%	70%	2%
Minnesota	36	64	0
North Dakota	12	81	7
South Dakota	25	72	3
Montana	21	79	0
Wisconsin	42	58	0
Iowa	27	70	4
Nebraska	20	78	2

14. Percentage of farm borrowers having **negative cash flow** this year?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	5.4%	1.0%	4.0%	10.0%
Minnesota	4.9	0.0	2.0	8.0
North Dakota	8.5	1.1	5.0	10.0
South Dakota	7.2	2.0	5.0	10.0
Montana	3.6	0.0	2.0	5.0
Wisconsin	4.8	1.0	4.0	5.0
Iowa	5.0	1.0	4.0	5.0
Nebraska	5.1	1.0	5.0	10.0

15. Percentage of farm customers that went **out of business** during the **past 12 months**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	1.1%	0.0%	0.5%	1.8%
Minnesota	1.2	0.0	0.5	2.0
North Dakota	1.4	0.0	1.0	2.0
South Dakota	1.3	0.0	1.0	2.0
Montana	0.4	0.0	0.0	1.0
Wisconsin	1.8	0.0	1.0	2.0
Iowa	0.9	0.0	0.0	1.0
Nebraska	0.7	0.0	0.5	1.0

16. Overall **economic conditions** in your area at the **present time**?

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	3%	48%	42%	6%	1%
Minnesota	3	53	40	4	0
North Dakota	0	9	51	31	9
South Dakota	0	41	50	9	0
Montana	2	36	57	5	0
Wisconsin	2	59	37	2	0
Iowa	5	59	34	1	0
Nebraska	3	46	49	2	0
Twin Cities Banks	7	37	56	0	0
N. Minn.-Wisc.	0	51	41	7	0

17. **Local economy** stronger or weaker than a year ago?

	Stronger	Same	Weaker
All Ag Banks	33%	55%	12%
Minnesota	35	58	7
North Dakota	4	50	46
South Dakota	26	61	13
Montana	36	55	9
Wisconsin	44	51	5
Iowa	41	51	8
Nebraska	28	62	10
Twin Cities Banks	7	70	22
N. Minn.-Wisc.	34	54	12

18. Anticipated trend in **economic conditions** during the **next 12 months**?

	Better	Same	Worse
All Ag Banks	20%	71%	9%
Minnesota	16	79	5
North Dakota	12	74	15
South Dakota	12	66	22
Montana	27	66	7
Wisconsin	31	64	5
Iowa	27	66	7
Nebraska	12	76	12
Twin Cities	4	85	11
N. Minn.-Wisc.	17	66	17

19. Are **capital expenditures** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	4%	62%	35%
N. Minn.-Wisc.	17	54	29

20. Change expected in **capital outlays** during **next 12 months?**

	Stronger	Same	Weaker
Twin Cities Banks	4%	59%	37%
N. Minn.-Wisc.	15	61	24

21. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	11%	78%	11%
N. Minn.-Wisc.	22	59	20

22. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	4%	28%	68%
N. Minn.-Wisc.	13	45	42

23. Change expected in **consumer spending** during **next 12 months?**

	Stronger	Same	Weaker
Twin Cities Banks	11%	48%	41%
N. Minn.-Wisc.	12	63	24

24. Are **housing starts** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	11%	44%	44%
N. Minn.-Wisc.	17	59	24

Bankers' Views: 1990 Economic Prospects

Iowa - "Farmers should have excellent year with strong livestock profits."

"Low unemployment in nearby cities should contribute to economic improvement."

"Farm customers wouldn't be making it without off-farm jobs or spouses working."

"Local retail district is disappearing."

"It is very dry in our area, which could have a depressing effect on land prices."

"Mainstreet will continue to struggle."

Minnesota - "Cash flows will continue to tighten for highly leveraged cash-grain farmers."

"Small town mainstreet appears to be declining."

"Moisture conditions will determine economic outlook."

"If crops are poor, there is little slack to cover farmers' risk."

"Land rents and land prices seem to be escalating too rapidly."

Montana - "Prospects are good. We have good moisture."

"Drought is extreme at present. Third year in a row."

"Very strong for cattle, sugar beets. Fair for small grains and corn."

"Local economy in a continual slow decline."

"Ag prices will bolster economy; rest will remain flat due to decline in timber industry."

Nebraska - "Farm economy remains strong, supported by strong livestock prices."

"Outlook is dim if we don't receive rain. Have been extremely dry the last two years."

"Recent moisture improves chances for above average year."

"Two years of drought have weakened local economy."

North Dakota - "1989 marked the second year of drought conditions, which has negatively impacted our local economy."

"If no rain we will have real trouble in ag economy."

"Without normal crop conditions, we will lose more farmers next year."

"CRP has had a big (adverse) impact on small businesses and small towns."

South Dakota - "If moisture conditions are favorable, outlook will be bright. We have a strong cow-calf and cattle feeding economy."

"High cattle and hog prices make everyone very optimistic."

"With rain outlook will be good. Without rain, terrible."

"Without moisture very poor. This would be our third dry year."

Wisconsin - "Even though farmers have just experienced recent sharp drop in milk prices, they are in better financial shape than they have been in 10 years."

"Commercial and industry leveling off. Ag looks improved."

"Steady to slightly improved ag conditions. Improving commercial business conditions."

"Retail and industrial sectors are somewhat sluggish. New housing starts are relatively good."

Twin Cities - "Economic conditions should stay about the same as past year."

"Prospect for increased housing activity remains strong--provided interest rates don't go up."

"Slightly weaker than last year."

"Flat to slight decline."

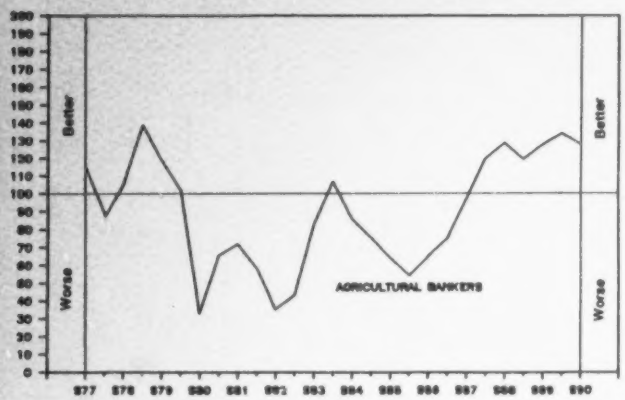
Northern Minnesota/Wisconsin - "Economic conditions are expected to continue to improve at a slow, consistent pace."

"High employment. Substantial small and medium-sized businesses expanding. Home sales and construction starting off strong."

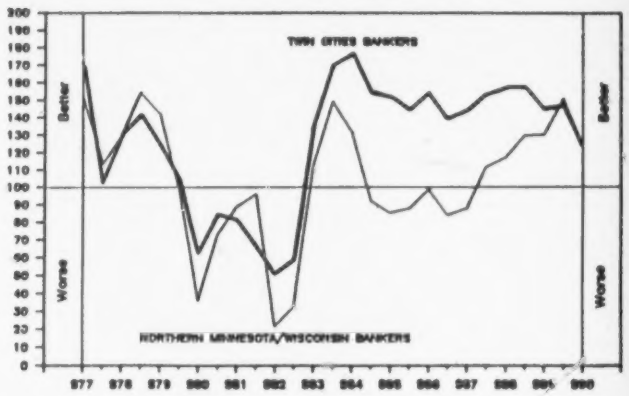
"Look for continued improvement with tourism leading the way."

"Iron Range area is showing a gradual economic rebound."

AGRICULTURAL BANKERS CONFIDENCE INDEX



BANKERS CONFIDENCE INDEX



percent expect stronger conditions. Their appraisals were highly dependent on weather. With timely rains, bankers anticipate a good year, but if drought continues the outlook is fair to poor.

If adequate moisture is received, cow-calf producers can expect an excellent year, since feeder-cattle prices are very strong. Without rain, some producers would have to either liquidate a portion of their cattle herds or move them to areas with better pastures.

Rainfall would also bring much-needed relief to areas that have already suffered at least two years of drought. Another year of drought could spell significant trouble for highly leveraged operators who have no financial cushion. Mainstreet retailers would also feel the effect of continued reduced spending.

Land Prices Rising At Slower Rate. Bankers indicate that land prices are about 7 percent higher than a year ago, a more moderate gain than recorded the previous two years. This slower increase is a good sign since bankers report that land is frequently selling for more than it will return from production. However, bankers note that farmers are making fairly large down payments on land, avoiding past problems of high leverage.

At present, the median land value in Iowa is $1,450 per acre. One-fourth of the Iowa bankers valued good cropland at $1,7[illegible]cre or more. The best Minnesota and Nebr[illegible]and is selling in the $1,200-plus range.

Drought has restrained [illegible]ues in North Dakota and Montana. Bankers in the[illegible] states reported little change in land values over the past 12 months.

Pastureland prices are up only 5 percent from a year ago. Half of the bankers reported no increase in pastureland values as drought conditions made ranchers and dairy farmers cautious. Bucking the trend, pastureland prices are up an average of 8 percent in Nebraska and South Dakota, reflecting profitable feeder-cattle prices.

Seventy percent of the bankers predict fairly stable land prices in the next 12 months; only a few anticipate lower land prices. Land prices in dairy areas are the most likely to rise.

Farm-Failure Rate Stabilizes At Low Level. On average, bankers estimate that 1.1 percent of their customers quit farming during the past 12 months. About 45 percent of the bankers said none of their customers went out of business. These figures are roughly the same level that have persisted since the fall of 1988. Thus after hitting a peak in early 1986 and then declining until late 1988, the farm-failure rate appears to have stabilized at a rather low level. Drought-plagued central North Dakota is one exception to this pattern. Bankers in that area indicate that 2 percent of their farm customers quit farming in the past 12 months, nearly double the level reported in last October's survey.

Bankers estimate that about 5 percent of their farm borrowers will experience negative cash flow in 1990, the lowest level since this question was first asked in 1985. However, these figures may overstate the financial strength of ag producers. While most farmers have positive cash flow, some grain farmers are not generating enough income for machinery replacement. Some farmers also would not be making it without off-farm employment. Moreover, some highly leveraged operators located in drought areas will need to restructure debt or, in a limited number of cases, sell out.

In contrast, earnings tend to be considerably better for many livestock producers. In addition, farmers with low debt levels continue to generate adequate profits.

Agricultural Credit

Fewer Nonperforming Loans. The number of problem farm loans continues to drop. The bank survey showed that on average 1.2 percent of farm loans were nonperforming, down from 1.7 percent a year ago. Nearly 45 percent of the bankers said none of their farm loans were nonperforming. As a result,

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39 percent of the bankers expect net charge-offs of loans to decline this year; only 13 percent anticipate higher charge-offs.

North Dakota banks reported the highest level of nonperforming farm loans, averaging 2.5 percent, up from 1.4 percent last fall. Montana bankers were next-highest with 1.9 percent.

Moderate Loan Demand. Loans are up an average of 5 percent from a year ago, the third consecutive year of moderate loan demand, compared with declining loan volume in the mid 1980s. One-fourth of the banks said loans were up at least 10 percent, while another one-fourth experienced no change in loan volume. Meanwhile, deposits at agricultural banks were up only 3.4 percent from a year ago. While still weak, this was the strongest deposit growth since early 1987.

Stronger loan demand and anemic deposit growth boosted the average loan-to-deposit ratio 1.9 percentage points from a year ago to 53.5 percent, the highest April level since 1985. Nevertheless, more than half of the bankers viewed their ratio as lower than desired, while only 6 percent considered their ratio too high. One-fourth of the bankers had a ratio of 44 percent or less; another one-fourth had a ratio of 63 percent or more.

Thirty percent of the bankers expect higher loan demand during the next 12 months, double the number expecting weaker loan demand.

Twin Cities Economy

Economic Growth Has Slowed. Bankers report that economic conditions are somewhat less robust than a year ago. Auto sales, homebuilding and capital expenditures are all considered weaker, while general retail sales are about the same as a year ago. Twin Cities nonfarm employment growth slowed to 2.7 percent in 1989. Layoffs in the computer industry and cutbacks in corporate-headquarter jobs contributed to the smaller gain.

Fifty-six percent of the Twin Cities bankers rated local economic conditions fair and only 44 percent rated the economy good to very good. These are considerably lower marks than a year ago, causing a noticeable decline in the Twin Cities Confidence Index. But this decline signals slower economic growth rather than a recession. Most Twin Cities bankers expect little change in overall economic conditions during the next 12 months.

Weaker Loan Demand. Reflecting slower economic growth and tighter credit standards, loan volume is up a moderate 3.8 percent from a year ago, the second-smallest gain since the 1981-82 recession. One-fourth of the banks reported no increase in loan volume, while another one-fourth experienced increases of at least 10 percent.

Deposits were up 6.8 percent from a year ago, slightly stronger growth than the last couple of years.

Decent deposit growth combined with anemic loan demand caused the average loan-to-deposit rate to slip to 61.8 percent, compared with 63.5 percent last fall. But bankers anticipate somewhat stronger loan growth during the next 12 months.

One-fourth of the banks had a loan-to-deposit ratio of 55 percent or less, while another one-fourth had a ratio of 70 percent or more. About 45 percent of the bankers viewed their ratio as lower than desired.

Bankers report that only 1 percent of their loans are nonperforming. Half of the banks expect little change in loan charge-offs this year, while those expecting lower charge-offs slightly outnumber those anticipating higher charge-offs.

Northern Minnesota/N. Wisconsin

Fairly Healthy Economy. Half of the bankers rate overall economic conditions good, 41 percent fair and only 7 percent poor. These ratings are not quite as favorable as the last survey, causing the bankers' confidence index to dip from last fall's high level. Auto sales, homebuilding and capital spending are considered somewhat weaker than a year ago.

Nevertheless, bankers expect economic conditions to remain fairly healthy during the next 12 months. Continued moderate growth is anticipated, led by increased tourism, rising mining employment and expansion by some local manufacturers.

Moderate Loan Demand. Loans are up 4.2 percent from a year ago, a somewhat smaller increase than in 1989, but still the second-strongest growth in six years. Twenty-five percent of the banks reported no loan growth, while another one-fourth experienced increases of at least 10 percent.

Bank deposits increased 4.6 percent during the past 12 months, roughly on par with the past couple of years. The average loan-to-deposit ratio increased to 62.4 percent, up 3 percentage points since last October to the highest level since 1985. One-fourth of the banks had a ratio of 53.5 percent or less, while one-fourth had a ratio of at least 72.5 percent. About 40 percent viewed their ratio as lower than desired. Most bankers expect loan growth to remain near current levels during the next 12 months.

Bankers said that 2.5 percent of their loans were nonperforming, but considerable variation was evident among the banks participating in this survey. Forty percent of the bankers expect fewer loan charge-offs this year, while only 7 percent anticipate higher charge-offs.

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